



FINANCIAL SECTION





2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

Independent Auditors' Report

The Honorable Martha A. Womacks
Auditor of Marion County
Marion County, Indiana:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion County, Indiana (a component unit of the Consolidated City of Indianapolis—Marion County) (County) as of and for the year ended December 31, 2002 which collectively comprise the County's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion County, Indiana as of December 31, 2002 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective January 1, 2002, the County has implemented a new financial reporting model as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. In addition to GASB Statement No. 34, the County adopted GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2003 on our consideration of Marion County, Indiana internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in connection with this report in considering the results of our audit.



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The management's discussion and analysis (MD&A) on pages 13 through 20; the budgetary comparison information on pages 56 through 58; the schedules of funding progress and the employer contributions on pages 59-60; and the notes to the required supplementary information on pages 61 and 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collective comprise the County's basic financial statements. The information presented in the Introductory, the Statistical and Combining Fund Financial Statements and Schedules – Other Supplementary Information Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, except the schedules of revenues and expenditures budget and actual which are unaudited, have been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information presented in the Introductory, Statistical Sections, and Combining Fund Financial Statements and Schedules – Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

KPMG LLP

August 23, 2003

**MARION COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2002**

As management of Marion County (County), Indiana, we offer readers of the County's Comprehensive Annual Financial Report (CAFR) this narrative overview and analysis of the financial activities of the Marion County government for the fiscal year ended December 31, 2002. Due to this being the first year the current financial reporting model has been used; comparisons with the previous year are limited. In future years, when prior year information is available, comparative financial analyses will be presented. For a better understanding of the financial information presented in the CAFR, we encourage readers to review the transmittal letter prior to this analysis and the financial statements following it.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, the County's assets exceeded its liabilities at the close of 2002 by \$41.9 million (net assets). Of this amount, \$5.1 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities had net assets of \$37.9 million, and business-type activities had net assets of \$4.0 million.
- As of December 31, 2002, the County's governmental funds reported combined ending deficit fund balances of (\$4.2 million), a decrease of \$31.5 million compared to the prior year.
- At the end of the fiscal year, the unreserved deficit fund balance for the General Fund was (\$25.8 million).
- On a government-wide basis, the County's total expenses in 2002 were \$240.4 million, or \$11.6 million more than the \$228.8 million generated in charges for services, grants, taxes, and other revenues.
- The General Fund revenues (budgetary basis) of \$162.9 million were 96.6% of the original budget estimates.
- The County's total long-term liabilities increased by \$1.4 million (2.4%) during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other information to supplement the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances using accounting methods similar to those used by private-sector companies. In these statements, a distinction is made between governmental activities and business-type activities. Governmental activities are those activities normally associated with the operation of a government that are principally supported by taxes and intergovernmental revenues. Business-type activities are those activities that are designed to be self-supportive through user fees and charges. There are two government-wide statements, the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference being the net assets. Changes in the net assets may serve as a useful indicator of whether or not the financial position of the County is improving or deteriorating.

The Statement of Net Activities presents information showing how the County's net assets changed during the most recent fiscal year. All current year revenues and expenses are accounted for in the statement of activities, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. This statement also presents the various programs of the County and the extent to which they are supported by charges for services, grants and contributions, taxes, and investment income. The governmental activities of the County include administration and finance, protection of people and property, judicial, corrections, recreation, and health and welfare. The business-type activities of the County include a juvenile alternative school and a forensic services training program.

Fund Financial Statements

The second set of financial statements are fund financial statements, which provide information about groupings of related accounts (funds) that are used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the County's most significant funds – not the County

as a whole. The County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds tell how general government services were financed in the short term as well as what financial resources remain available for future spending to finance County programs.

The County maintains several individual governmental funds according to their type (general, special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, State and Federal Grants Fund, Property Reassessment Fund and Cumulative Capital Projects Fund, which are considered to be major funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements as supplementary information.

Proprietary Funds. Proprietary funds offer short-term and long-term financial information about services for which the County charges customers, both external customers and internal departments of the County. The County maintains the following two types of proprietary funds:

- Enterprise Funds are used to report information similar to business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the operations of the Juvenile Court Alternative School Services and Forensics Services Training both of which are considered major funds.
- Internal Service Funds are used to report activities that provide services for certain County programs and activities. The County uses an internal service fund to provide for the financing of information technology.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of individuals or units of other governments. The County is the trustee or fiduciary responsible for assets that can be used for the trust beneficiaries per trust arrangements. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. Agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the County's own programs, they are not reflected in the government-wide financial statements.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that allows for a better understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and notes to the basic financial statements, the CAFR also presents required supplementary information concerning the County's budgetary comparisons for the General Fund, State and Federal Grants, and Property Reassessment, and required information pertaining to the County's progress in funding its obligation to provide pension benefits to its employees.

Additional Supplementary Information

The combining statements and schedules provide fund level detail for all non-major governmental funds, pension trust funds, and agency funds. Also in this section are comparisons of actual to budget for all other annually-budgeted funds.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

This is the first year the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Because this reporting model significantly changes both the recording and presentation of financial data, the County has not restated prior years for the purpose of providing comparative information for Management's Discussion and Analysis. In future years when prior year information is available, a comparative analysis of government-wide data will be included in this report.

Net assets. The County's combined net assets at December 31, 2002 were approximately \$41.9 million. Looking at the net assets of governmental and business-type activities separately provides additional information.

Marion County, Indiana
Schedule of Net Assets
December 31, 2002

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Assets:			
Current and other assets	\$ 90,248,550	\$ 640,178	\$ 90,888,728
Capital assets, net of accumulated depreciation	<u>73,030,718</u>	<u>3,640,000</u>	<u>76,670,718</u>
Total assets	<u>163,279,268</u>	<u>4,280,178</u>	<u>167,559,446</u>
Liabilities:			
Long-term liabilities outstanding	44,053,911	—	44,053,911
Other liabilities	<u>81,275,521</u>	<u>309,750</u>	<u>81,585,271</u>
Total liabilities	<u>125,329,432</u>	<u>309,750</u>	<u>125,639,182</u>
Net assets:			
Invested in capital assets, net of related debt	33,206,103	3,640,000	36,846,103
Unrestricted	<u>4,743,733</u>	<u>330,428</u>	<u>5,074,161</u>
Total net assets	<u>\$ 37,949,836</u>	<u>\$ 3,970,428</u>	<u>\$ 41,920,264</u>

ANALYSIS OF NET ASSETS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In Marion County, assets exceeded liabilities by \$41.9 million at the close of fiscal year 2002. The largest portion of the County's net assets, 87.9%, reflects its investment of \$36.8 million in capital assets (e.g. land, buildings, equipment and infrastructure), less related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

All net assets generated by governmental activities or business-type activities are invested in capital assets or have no restrictions on how they may be used. Unrestricted governmental net assets were \$4.8 million at the end of the year, and unrestricted net assets of the business-type activities were \$330 thousand at the end of the year. At the end of 2002, the County is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in net assets. The County's total revenue on a government-wide basis for 2002 was \$228.8 million. Taxes represent 67.7% of the County's revenue. Another 21.2% came from fees charged for services and the remainder came from grants and contributions, interest earnings, and miscellaneous revenues.

The total cost of all programs and services was \$240.4 million. The County's expenses cover a range of typical County services. The largest program and the program with the largest burden on general revenues was Protection of People and Property.

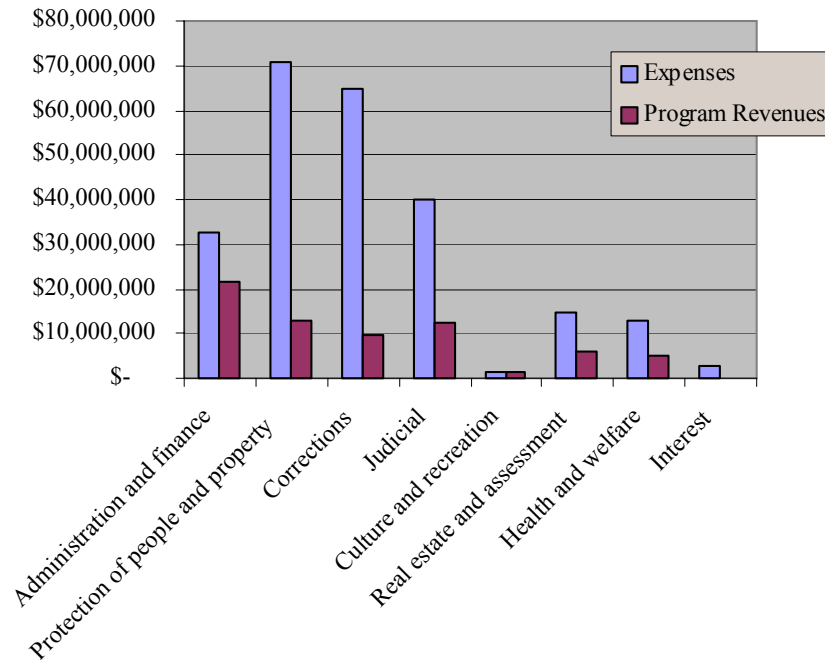
Marion County, Indiana
Schedule of Changes in Net Assets
For the Year Ended December 31, 2002

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Revenues:			
Program revenues:			
Charges for services	\$ 47,597,992	\$ 840,872	\$ 48,438,864
Operating grants and contributions	21,229,035	—	21,229,035
General revenues:	—		
Property tax	110,159,928	—	110,159,928
Other taxes	44,698,934	—	44,698,934
Other general revenues	4,311,323	—	4,311,323
Total revenues	<u>227,997,212</u>	<u>840,872</u>	<u>228,838,084</u>
Expenses:			
Administration and finance	32,505,602	—	32,505,602
Protection of people and property	70,927,052	—	70,927,052
Corrections	64,605,117	—	64,605,117
Judicial	40,035,570	—	40,035,570
Culture and recreation	1,396,038	—	1,396,038
Real estate and assessment	14,645,783	—	14,645,783
Health and welfare	12,758,374	—	12,758,374
Interest	2,932,964	—	2,932,964
Forensics training	—	103,793	103,793
Juvenile court alternative school services	—	515,000	515,000
Total expenses	<u>239,806,500</u>	<u>618,793</u>	<u>240,425,293</u>
Increase (decrease) in net assets	(11,809,288)	222,079	(11,587,209)
Net assets - beginning of year	49,777,124	3,748,349	53,525,473
Net assets - end of year	<u>\$ 37,967,836</u>	<u>\$ 3,970,428</u>	<u>\$ 41,938,264</u>

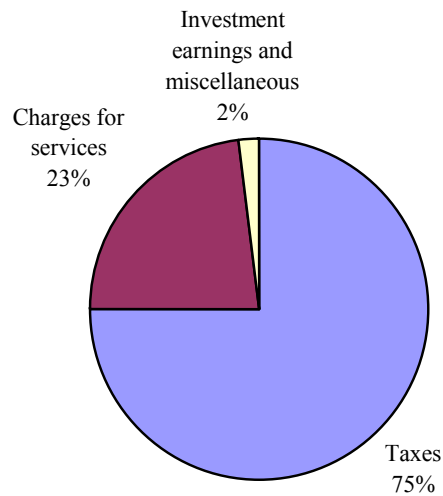
Governmental Activities. Governmental activities decreased the County's net assets by \$11.8 million. Since this was the first year for government-wide reporting, changes from last year to this year cannot be reported. However, the primary factor influencing this decrease was an unfunded debt to the State of Indiana for the incarceration of juveniles, both boys and girls, in state institutions that increased by \$18.6 million.

The following charts provide comparisons of the County's governmental program revenues and expenses by function and revenues by source. As shown, Protection of People and Property is the largest function in expense. General revenues such as property tax are not shown by program, but are included in the revenues by source chart to show their significance. Taxes are used to support program activities countywide.

Expenses and Program Revenues - Governmental Activities

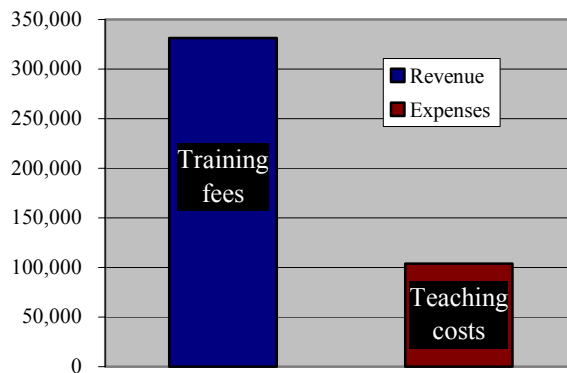


Revenues by Source - Governmental Activities

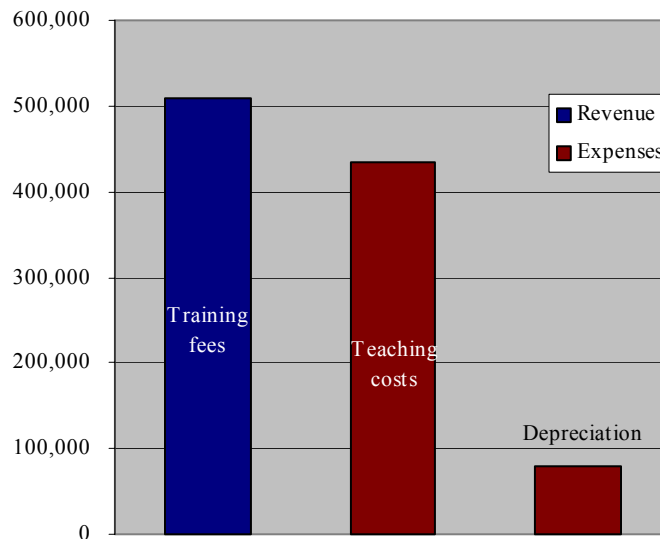


Business-type activities. At the juvenile alternative school, operating revenues were \$509 thousand and operating expenses were \$515 thousand, including \$80 thousand for depreciation. Operating revenues from the forensic services training were received from entities that sent individuals to the County's forensic services agency for training. These revenues were \$331 thousand in 2002. The operating expenses to train these individuals were \$104 thousand.

Forensic Training Revenues and Expenses



Juvenile Court Alternative School Services Revenues and Expenses



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The focus of the County's governmental funds is to provide information on inflows and balances of resources that are available for spending. An unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

At December 31, 2002, the unreserved fund balance (deficit) of the General Fund was (\$25.8 million), while the total General Fund balance (deficit) was (\$24.5 million). The fund balance in the County's General Fund decreased by \$31.2 million. The decrease in the General Fund is primarily due to the increase in the debt owed to the State of Indiana for the incarceration of Marion County juveniles. This debt increased by \$18.6 million in 2002. The remaining decrease is due to increased spending without a corresponding increase in revenues. The State and Federal Grants Fund had an unreserved fund balance of zero. This is an increase over the 2001 fund balance. The grants received under the State and Federal Grants Fund by the County are primarily on a reimbursement basis, therefore, the fund balance will fluctuate depending upon the timing of the receipt of the reimbursements. The Property Reassessment Fund had an unreserved fund balance and total fund balance of \$4.5 million, which was the decrease of \$0.5 million from the prior year. The Indiana Tax Court ordered the County to change its tax base calculation to reflect property values closer to market value. The decrease in the Property Reassessment Fund, therefore, is due to the continued county-wide property reassessment process underway in 2002. The Cumulative Capital Development Fund's unreserved and total fund balance decreased by \$40 thousand to \$585 thousand. The decrease in this fund is due to an increased distribution to the City of Indianapolis as well as increased public safety expenditures.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the year, the unrestricted net assets were \$102,849 in the Juvenile Alternative School Services Fund and \$227,579 for the Forensic Services Training Fund. The Forensics Services Training Fund is a new fund created in 2002 for the training of forensic science to foreign and domestic students. The \$227,579 in unrestricted net assets is due to tuition fees in excess of the cost of training. This is also true for the Juvenile Court Alternative School Services Fund. The \$102,849 in net assets is because of tuition fees charged in excess of services provided. The internal service fund, which is used to account for the operations of the County's management information systems, had \$3.8 million in unrestricted net assets at year-end. The \$3.8 million in unrestricted net assets at the end of 2003 was due to the methodology used to calculate the user fee chargebacks. The fees are calculated on the budgetary figures. In 2002, the Information Services Agency (ISA) was able to control spending and come in under budget; however, the rate was not adjusted to reflect the underspending. For 203, the rates will be adjusted to take this into account and adjust the chargebacks to the agencies accordingly.

Fiduciary Funds

The County is the custodian of certain agency funds, and the most common use of agency funds is for pass-through activity. Since, by definition, all assets of the agency funds are held for the benefit of the other entities, there are no assets. As of the end of 2002, the combined gross assets of the agency funds totaled \$132 million.

General Fund Budgetary Highlights

The final budget for the County's General Fund represents the original budget plus any additional supplemental appropriations during the year. It does not include encumbrances carried over from the prior year. In 2002, there were \$4.9 million of supplemental appropriations to the General Fund. These additional appropriations consisted primarily of \$4.0 million for chargebacks to the Internal Services Fund for information technology. These increases were funded with \$4.0 million of new revenues and the difference from fund balances.

Excluding prior year encumbrances, the original General Fund budget for 2002 was \$181.6 million. The final General Fund budget was \$186.5 million. Actual expenditures were \$184.2 million. Of the total underspending from the final budget, \$1.6 million was in public safety. General revenues and other resources were originally and finally estimated at \$168.7 million. The actual revenues were \$162.9 million, or 96.6% of the original and final estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County had a net investment of \$73.0 million in capital assets at December 31, 2002 (net of accumulated depreciation of \$59.2 million), in a broad range of capital assets for governmental activities. This amount represents a net increase for the current year (including additions and deductions) of \$13.4 million.

Marion County, Indiana Schedule of Capital Assets Net of Depreciation December 31, 2002

	Governmental Activities December 31, 2002	Business-type Activities December 31, 2002	Total 2002
Land	\$ 29,555	\$ —	\$ 29,555
Construction in progress	12,672,117	3,640,000	16,312,117
Buildings and improvements	39,261,282	—	39,261,282
Furniture and equipment	9,613,429	—	9,613,429
Vehicles	11,454,335	—	11,454,335
Total	<u>\$ 73,030,718</u>	<u>\$ 3,640,000</u>	<u>76,670,718</u>

Major capital assets additions in 2002 included:

- Construction in progress \$12.7 million
- Furniture and Equipment \$ 2.6 million
- Vehicles \$ 4.1 million

Additional information on the County's capital assets can be found in Note 7 of the Notes to the Basic Financial Statements.

Long-term Debt

At the end of 2002, the County had outstanding long-term debt and other long-term obligations for governmental activities of \$57.7 million compared to \$56.3 million at December 31, 2001, as shown below.

Marion County, Indiana Schedule of Long-term Debt Obligations

Governmental activities:	
General obligation notes	\$ 20,000,000
Capital leases payable	29,648,428
Claims and judgments	725,000
Compensated absences	5,921,718
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Total	\$ 56,295,146
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Bond ratings. The County's general obligation bonds have been rated Aa by all three bond rating agencies.

Limitation on debt. The state limits the amount of general obligation debt the County can issue to 0.67% of assessed value, as shown in the statistical section. The County's outstanding debt is well below the limit.

ECONOMIC FACTORS AND THE 2003 BUDGET

The original budget for all annually-budgeted funds was \$238.6 million plus the Family and Children's Fund budget of \$71.5 million. Revisions of \$2.5 million have been made through June 2003 plus \$1.8 million appropriated for the Family and Children's Fund.

The 2003 General Fund original budget was \$186,688,270, an increase of 2.79% over the 2002 original General Fund budget of \$181,628,282. Revisions of \$1,433,612 have been made through June 2003.

List of Additional appropriations made 1/1/03-6/30/03

Sheriff's Department	Jail Beds Funded by City	\$ 1,398,249
Pike Township Assessor	Office Rent	35,363

- The County's unemployment rate decreased from 4.6% for May 2002 to 4.5% for May 2003. This compares with the state's rate decreasing from 4.6% to 4.5% and the national rate increasing from 5.8% to 6.1%.
- The County expects to continue to face increasing costs for its Boys/Girls School obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives.

If you have any questions about this report or need additional information, please contact Marion County Auditor's Office, Suite 801, 200 East Washington Street, Indianapolis, Indiana 46204.